BRITISH COLUMBIA RAILWAY GROUP ANNUAL REPORT FOR 1991

STRATEGIC STATEMENT OF PURPOSE

Building on its commercial mandate in the next three to five years, BC Rail will diversify its revenue base and become a customer-focused, market-driven firm providing efficient and integrated services in transportation, real estate, telecommunications and related services.

Paul J. McElligott
President and Chief Executive Officer

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ABOUT BC RAIL

The British Columbia Railway group is made up of three companies:

- the parent, British Columbia Railway Company;
- BCR Properties Ltd., a subsidiary which owns and manages the group's real estate assets;
- BC Rail Ltd., the operating railway company.

British Columbia Railway Company is owned by the Province of British Columbia. A wholly-owned subsidiary company, BCR Properties Ltd., holds 75 per cent of BC Rail Ltd. common shares, while the remaining 25 per cent are held by the parent, British Columbia Railway Company.

The operating railway is an integrated transportation and communications company, engaged in carrying forest products, coal, ore concentrates and other natural resources to domestic and world markets. Other activities include passenger services, road and intermodal transportation, telecommunications marketing, real estate development and transportation consulting.

BC Rail operates 1,387 miles of trackage within British Columbia and is connected to all rail-served points in North America.

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BOARD OF DIRECTORS

David A. Jiles, Chairman*
E. Beverly Ellis
Harold N. Halvorson*
Edward John
Paul J. McElligott
Gordy Sangha*
Erik W. Tofsrud*

* Appointed February 21, 1992, to succeed retiring directors Gerry Strongman, Victor Bowman, Anthony Brummet, Winton Derby, Jim Inkster, E.A. Moffat

OFFICERS

Paul J. McElligott, *President and Chief Executive Officer*
Wayne C. Banks, *Vice-President–Marketing and Sales*
Roger Clarke, *Vice-President–Finance and Information Services*
Brian Foley, *Vice-President–Human Resources, Engineering and Communications*
J.C. Trainor, *Vice-President–Operations and Mechanical*
Frank Trotter, *Vice-President–Strategic Planning and Business Development*
R.W. Young, *Vice-President–Real Estate and Administration and Corporate Secretary.*

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THE YEAR AT A GLANCE

	(Dollars in Thousands) 1991	1990 Restated
Operating revenues	$319,989	$295,053
Operating expenses	$241,872	$238,789
Operating income	$ 78,117	$ 56,264
Net income	$ 53,837	$ 32,282
Freight tonnage hauled	17,434,200	15,827,000

BC Rail has 2,300 employees stationed in more than 20 communities throughout the province. In 1991, they shared a total payroll of $108.3 million. In round figures, the railway's purchases of goods and services in 1991 amounted to $89 million, with a further $85 million spent during the year on engineering contracts and other services, for a total of $174 million.

BC Rail is '...a unique Crown corporation'

Long term goal is to enhance the railway's value to the Province of British Columbia.

Fiscal 1991 was a difficult but successful year for BC Rail. Despite a tough recessionary environment, the company managed to record higher revenues and improved profitability. Close attention to spending and prudent management contributed to the company's solid performance.

This past February, I was appointed Chairman of the Board of Directors. Since that time, I have been working diligently to understand the important role this company plays in the economy of British Columbia. In the months to come, I will be touring the system and meeting BC Rail customers and employees to gain a better appreciation of the railway's operations.

Joining me on the Board are Harold Halvorson, Gordy Sangha and Erik Tofsrud. In addition, Beverly Ellis, Edward John and Paul McElligott, President and C.E.O. of BC Rail, have been reappointed. I expect to work closely with all of them over the next few years.

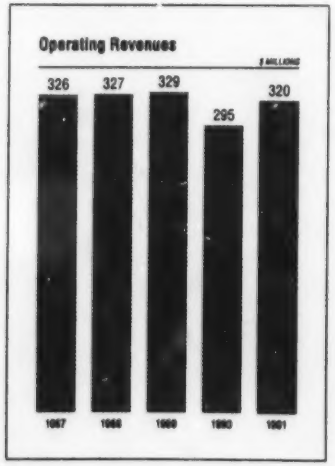
The company's thanks are due to former Chairman Gerry Strongman and his departing colleagues Vic Bowman, Tony Brummet, Winton Derby, Jim Inkster and Ted Moffat. All gave generously of their time during their terms of office. I would like to extend to them our gratitude for their energy and dedication and to wish them every success in their future endeavours.

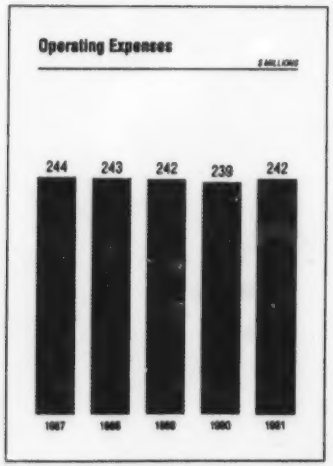
BC Rail is a unique Crown corporation. We do not have a monopoly in any of our businesses, which means that each day we must compete in a very tough marketplace. To succeed, we must continue to improve productivity and increase customer satisfaction. As a consequence, we will be investing heavily in our physical plant and equipment, particularly the rolling stock of the railway. This is critical, if our employees are going to provide the best possible service in a highly competitive environment.

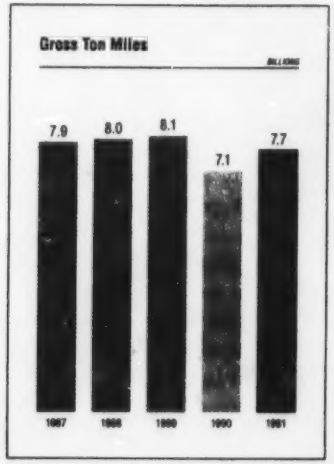
Our long term goal is to enhance the value of the corporation to the shareholder, the Province of British Columbia. To accomplish this, we will be opportunistic – seeking out those investments or strategic alliances that will ensure long term growth and profitability. This should not be interpreted to mean that we will ignore our core transportation business, which would be foolish. While rail freight is and will continue to be our primary enterprise, the company does operate a number of smaller, distinct units, which, if properly managed, should provide attractive returns.

While it is never easy to predict the future, 1992 is off to a good start for BC Rail. We intend to build on this momentum and are currently at work on a number of promising opportunities for the company. I look forward to communicating in the future about our progress and success.

David Jiles
Chairman







Recession notwithstanding, company performed well

Tough 1991 conditions challenged BC Rail but team effort and cost controls helped bring home improved revenues and income.

Despite the difficult economic conditions in which the railway operated during the year, I am pleased to report solid results for 1991. The year's performance is evidence that the leaner, more focused railway is working and that initiatives taken to improve customer service, increase market share and operate more efficiently are beginning to bear fruit.

Financial results in 1991 depicted streamlining efforts begun in 1990 and the development and implementation of a revised business plan early in the first quarter, when it became apparent the recession would be longer and deeper than originally anticipated. The revision called for curtailed spending in all areas of the company of both capital and operating expenses. Significant cost reductions resulted in the railway's three major operating divisions, Engineering, Mechanical and Operations, where operating expenses were down 11 per cent in relation to budget. A work sharing program in the company's mechanical shops, suspension of several 1991 capital programs until 1992 and further staff reductions also contributed to the favourable results.

Productivity improvements were achieved throughout the railway. In train operations, for example, improved management of through-freight tonnage allowed us to handle the total freight load with fewer trains. The railway also enjoyed a double digit improvement in fuel costs per train mile as a result of more efficient locomotives, a successful fuel conservation program and lower fuel prices.

Technological advances, such as electronic end-of-train indicators, have made manned cabooses redundant and if BC Rail is to regain its competitive position and recapture lost traffic, it is vital that we operate as efficiently as possible. We will continue to pursue this goal in 1992.

Efforts to improve customer service and the railway's competitive position continued through the year. Major steps included:

- the acquisition of new rail cars to satisfy customers' need for higher capacity and better-equipped rolling stock and the development of a continuing car fleet replacement program.
- a major conversion and refurbishing program for selected existing cars.
- joint efforts with key customers in the development of specialty equipment.
- the addition of more staff in the Forest Products marketing group.
- complete reorganization of the Bulk Products marketing group to provide additional resources and higher levels of service.
- the development of customer service training programs for all employees.
- the launch of a quarterly customer newsletter.
- improved commodity routings to help shippers remain competitive.

Follow-up surveys conducted in 1991 show that customers are noticing definite advances in BC Rail's responsiveness, flexibility and after-sales service. The railway will continue its program of ongoing improvements in service quality.

An important milestone reached in 1991 was the development and launch of the company's first, long-run strategic plan. Introduction of the plan followed 16 months of intensive self-analysis of the company and the environment in which it operates, involving not only executives and senior management, but employees from many levels.

While the plan's strategic purpose is stated elsewhere in this report, its overriding goal is to drive the company's transition from being an operations-oriented business, largely dependent on two natural resource commodities, to becoming a more diversified, customer-focused and market-driven enterprise. To that end, BC Rail is repositioning as a leader in service quality, developing a more disciplined, entrepreneurial approach to business, encouraging greater employee training, communications and empowerment and pursuing improved financial returns through revenue and productivity improvements.

The strategic plan was introduced and discussed with the company's union and non-union employees in a series of 27, four to five-hour meetings held throughout the system. The enthusiasm with which employees received the plan was gratifying and the fact that I was able to attend all 27 sessions, along with other members of the executive committee, was the most rewarding of all. Employee input into the plan, suggestions for refining it and identification of new opportunities were outstanding. More than 2,000

questions were raised by employees attending the sessions. These and the answers given at the time have been categorized and are being published as a permanent record for distribution to all employees.

In February, 1992, BC Rail was the last of Quintette Coal's creditors to reach agreement on a proposed reorganization plan. Quintette was placed under the protection of the Companies' Creditors Arrangement Act in June, 1990, to allow for a financial restructuring of its Tumbler Ridge operation.

The railway provided certain concessions in future freight rates while achieving management's objective of a "balanced" deal. This means BC Rail will share in upside benefits if the mine performs better than anticipated under Teck Corp.'s leadership as the mine's new manager. The Quintette restructuring was made necessary by an arbitrated reduction in the price of coal Quintette receives under a long-term sales agreement with the Japanese steel industry.

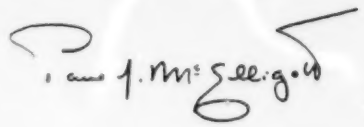
All parties, including BC Rail, key suppliers to the mine, the banks and Quintette itself had to share the pain to ensure continued operations. By sharing future potential benefits with BC Rail, Quintette has recognized the significant investment and ongoing commitment by the railway and the Province to the northeast coal project.

While I started the 1992 operating year with optimism about improved conditions, the issue of the United States' countervailing import duty on forest products is worrying and left in place, will have a very serious effect on our principal customers, the forest products industry. That, coupled with already slow markets and depressed prices, inevitably will affect rail shipments and in turn, threaten BC Rail's own well-being.

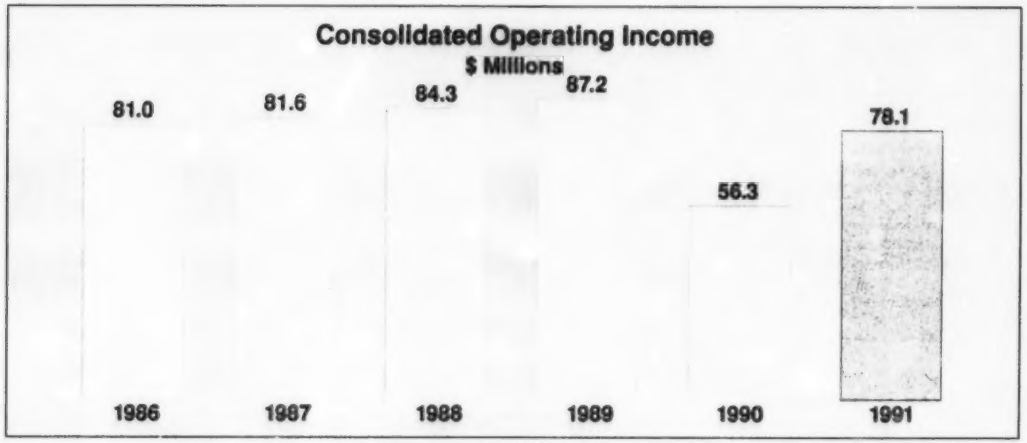
In the meantime, however, the railway's capital improvement programs will continue and projects suspended in 1991 will be restarted. Planned expenditures for the coming year include $25 million for car renewal and conversion, $8 million for new locomotive acquisitions and a further $7 million for rebuilding and re-engining existing locomotives in the Squamish shops.

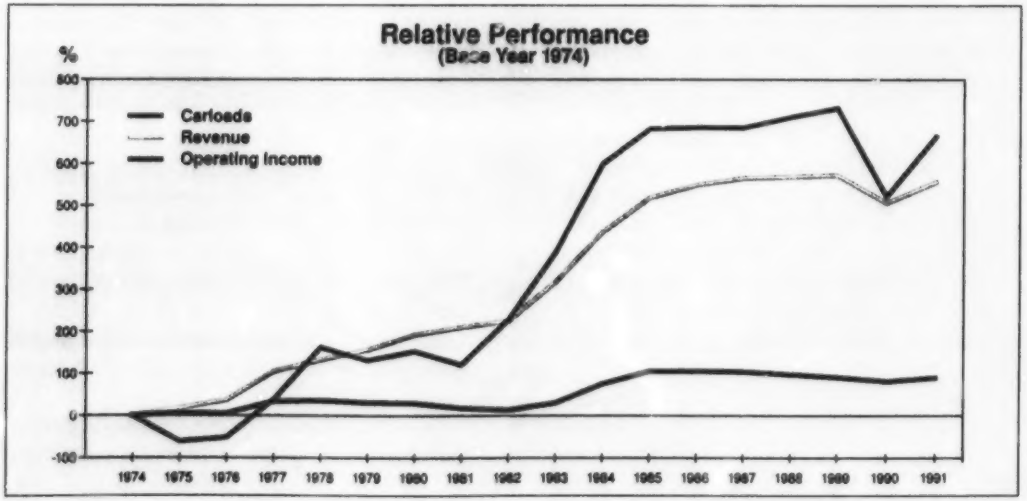
I am grateful for the support I received throughout the year from the outgoing Board of Directors, my executive colleagues and employees at all levels of the company. Employees' reaction to the strategic plan and the actions taken since is gratifying and it is rewarding to work in an atmosphere of such enthusiasm and commitment. A concerted team effort by all BC Rail employees resulted in the railway's strong performance in 1991.

I am sure that, as implementation of the plan continues and economic stability returns to the province, the worth of BC Rail to its owners, its customers and its employees cannot help but strengthen. With the new spirit prevailing in BC Rail, I am confident that 1992 will be as good a year as we can possibly make it and I look forward to working with the new Board in the challenges that lie ahead.



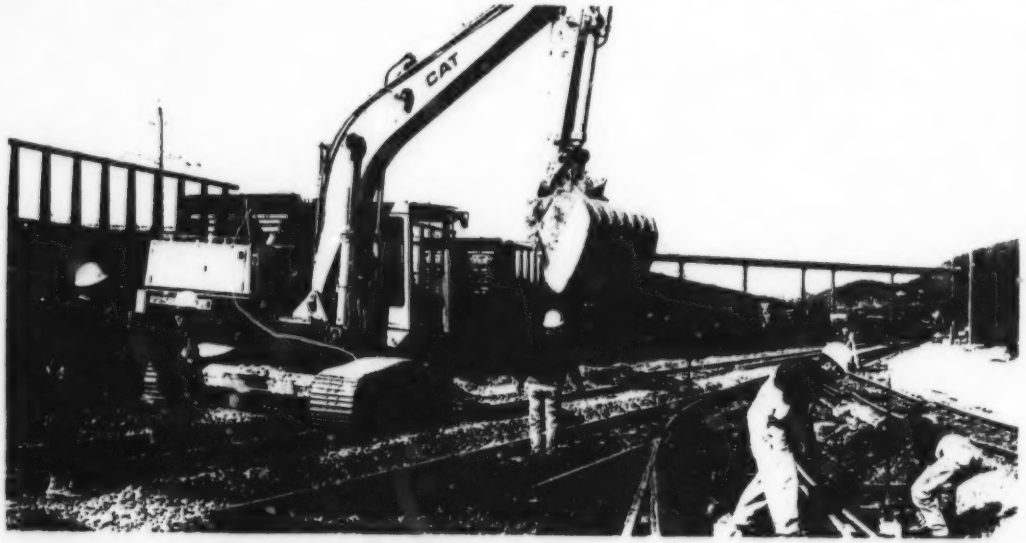
Paul J. McElligott
President and Chief Executive Officer





Railway net income $53.8 million in 1991

Strategic plan for the '90s also launched, with primary focus on improved customer service and recapture of lost market share.



A $14.6 million upgrade of North Vancouver yard is under way

Viewed against an economic backdrop that remained gloomy longer than expected, the railway's consolidated results for 1991 were strong. The company earned net income of $53.8 million for the year, on revenues of $320 million. Operating income, before payment of dividends to minority interest preferred shareholders, was $71 million.

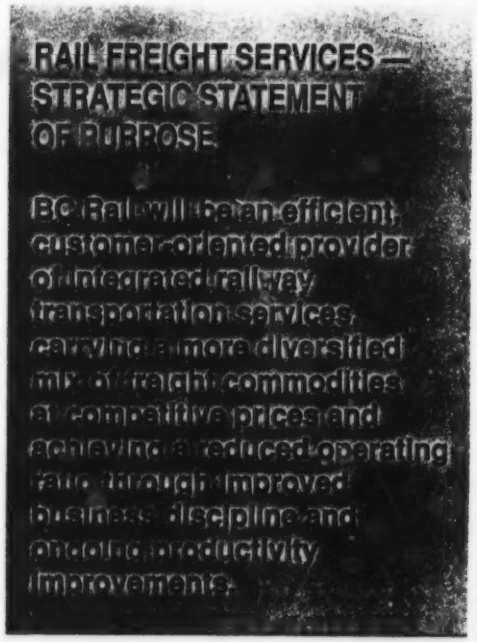
Direct comparisons with the 1990 and 1989 operating years are difficult. In 1990, a strike, very adverse weather conditions and aboriginal blockades halted railway operations for a total of 66 days and in 1989, net income was affected by an $80 million write-off of uncompleted construction.

While the 1991 results reflect only a four per cent return on British Columbia's $1.3 billion investment in BC Rail, it is encouraging that despite the continuing recession, the railway once again met its obligation to operate profitably. That it managed to hold its own against 1987 and 1988 results is largely the result of efficiency measures taken near the onset of recession and the fact that a number of capital improvement programs, budgeted for 1991, were suspended until 1992.

Financial results aside, 1991 was an important year for the railway. After more than a year of intensive self-analysis and study, the company in August unveiled its strategic plan for the 1990s. The plan is designed to address the realities of marginal revenue growth over the past decade, a diminishing return on assets and declining market share – which threaten most, if not all North American railways today.

As part of a planning process that began early in 1990, repositioning of the company as a customer-focused, market-driven enterprise is now well-advanced and many of the decisive actions necessary to accomplish its foremost goal have already been taken.

Fundamental to good rail freight service, for example, is the need to have a sufficient and well-maintained supply of the right kind of railcars, whenever customers need them. It became evident during planning sessions that this wasn't always so and one of the highest priorities of the plan was to put that right. As a direct result, the company announced a five-year, multi-million dollar car renewal program designed to ensure that the kind of cars customers want are there when they need them. The fleet renewal program is one of many actions taken to ensure specific customer needs are met. Deliveries of new, Canadian-built centrebeam lumber and pulp box cars began early in 1992 and conversion of a large number of existing cars is well in progress in the company's Squamish shops.



The strategic planning process also led to the frontline of BC Rail's marketing and sales and service effort being radically strengthened during the year, with the completion of additional staffing, begun in 1990, of the various commodity departments.

During the final quarter of the year, the strategic plan was introduced by executive management to all employees, in a series of 27 meetings held throughout the province. The meetings were well-received and well-attended.

The plan's principal objectives are to position the company as a leader in quality and customer service; to create an open, communicative corporate environment; to promote the skill and career development of employees; to achieve continuing productivity increases and to improve revenue growth. The completed plan was unanimously approved by the Board of Directors in September.

Under mounting pressure, an agreement was reached on February 28, 1992 with Quintette Coal Ltd., which had been under protection from creditors since June, 1990. Under the new agreement, the interests of the railway were protected and should the mine's performance exceed expectations, the railway will share in future benefits.

Freight revenues overall were approximately 2.5 per cent lower than planned and declines were felt in most of the commodity groups. Hardest hit were log shipments in northwestern B.C., petroleum shipments following closure of a major northeastern oil refinery and off-line woodpulp and lumber carloadings. Operating expenses were $4.6 million below budget.

The railway operated fewer freight trains in 1991, partly as a result of reduced freight volume but also because of improved management of through-freight tonnage. The higher horsepower locomotives bought in 1990, with their new technology and improved fuel efficiency, made it possible to improve train productivity by increasing tonnage per train. Gains also arose from better fuel-efficiency, brought about by the new locomotives, a successful fuel conservation program and lower fuel prices. Fuel costs per train mile were reduced by 13 per cent against the previous year.

Modest productivity gains were also achieved in yard operations and increases in the number of carloads handled per shift came close to plan. While the issue of cabooseless train operations remains unresolved, management and the member unions of the railway's Joint Council of Unions are exploring new ways to improve relationships and productivity.

Near year-end, a joint management/union safety advisory committee was established, with the principal objective of improving workplace safety. Training in industrial, survival and safety-oriented first aid is being provided to appropriate employees.

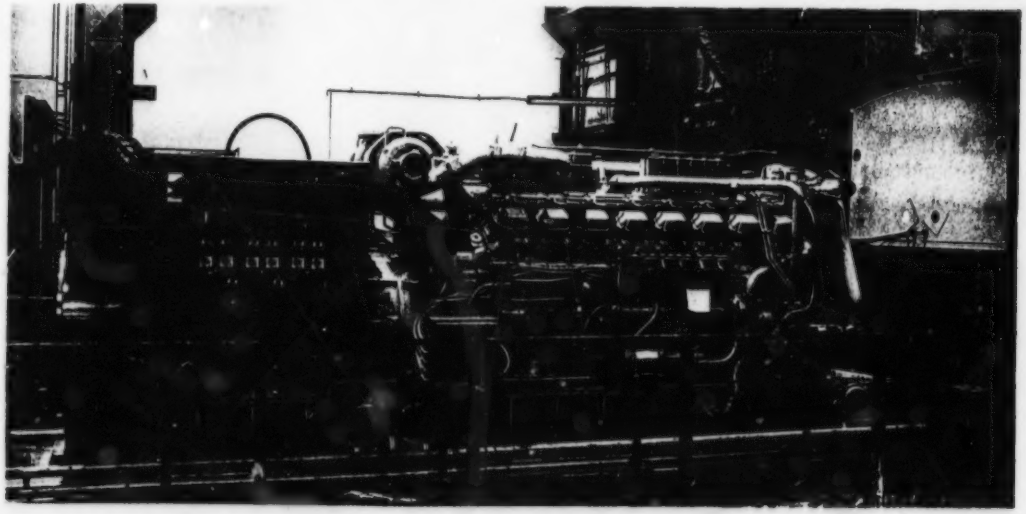
On the engineering front, continuous welded rail and tie replacement continued on the Squamish and Lillooet subdivisions, as did upgrading of the Takla and Fort Nelson subdivisions. Rock stabilization, bank widening and bridge work continued throughout the system.

Engineering resources were tested to the full during replacement of a bridge destroyed by fire in May and abnormally heavy, late summer rainfalls elsewhere. The bridge fire resulted in a month-long closure of the main line, during which rail traffic was rerouted over CN Rail and Intermodal traffic by road. The August rains caused severe flooding, washouts and mudslides, which also led to periodic closures of the line in the Squamish and Lillooet areas, and some diversion of traffic.

Near year-end, the Board of Directors approved a three-year, $14.6 million plan for redevelopment of the railway's North Vancouver yard, work on which has already begun. The project will include track upgrading and in addition, improved lighting, drainage, access roads and a new yard office.

Computerized systems and programs developed by the company's Information Services Department (ISD) brought new efficiencies to a number of divisions in the company. In Marketing and Sales, ISD installed a comprehensive information system which provides waybilling, revenue and interline data by route, commodity, customer and consignee. The new system enables a variety of traffic analyses and trend reports to be produced to support customer routing and service decisions. In addition, a number of additional customers joined the railway's electronic data interchange (EDI) network, which supplants the former paper-driven bill of lading process.

Another EDI system under development in conjunction with the railway industry will allow traffic and associated paperwork to be interchanged electronically. This is expected to be completed during the first half of 1992.



Re-engine project for Alco locomotives continues

Efficiency has been improved in the company's Mechanical shops with the introduction of a bar code work order and shop activity system. Bar coding has significantly reduced manual preparation and tracing of work orders in the railway's 13 shops.

In the Operations department, a new expert system to support train crew assignments has been installed and new automatic equipment identification technology, recently adopted by the North American railway industry, is also expected to offer new benefits and efficiencies.

The Communications department completed the second phase of upgrading the railway's microwave radio network from analog to digital. The project will be completed between North Vancouver and Prince George by the second quarter of 1992.

During 1991 and the previous year, the company's core rail freight sales and service effort has been intensified by the addition of staff in all commodity groups, in order to meet the corporate commitment to improved customer service. To keep customers and other external audiences better informed as to company goals and objectives, the division also launched The Carrier newsletter, which is being distributed quarterly to customers, suppliers and others.

The division's Forest Products market unit established a program to improve call quality and frequency, designed to meet the needs and expectations of individual customers. The unit is also spearheading efforts to ensure rail cars meet customers' railcar cleanliness standards and to improve transit times. Among the unit's other objectives are improved response times to customer requests and continuous monitoring of customer satisfaction.

In pursuit of its goal to improve customer liaison and service, the Bulk Products market group worked more closely with customers to determine how best to meet their requirements and with the railway's Fleet Management unit to monitor and improve car supply and placement.

Elsewhere in the Marketing and Sales division, Passenger operations attracted the highest ridership count since the late 1950s, and launched a number of new services. The ridership gains were achieved despite a province-wide slump in tourism during the year.

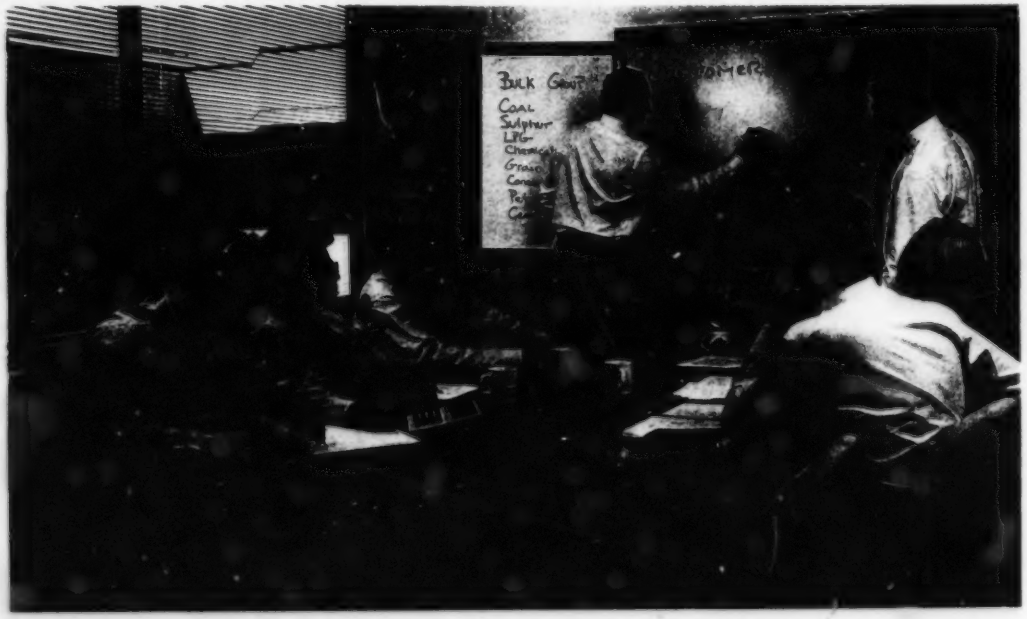
Land assembly and development planning continued throughout the year in the Real Estate and Administration division and after more than a decade of study and discussion as a member of the Squamish Estuary Coordinating Committee, the company began a public information process for the proposed development of additional port facilities in the municipality. Public submissions are still being considered.

The division's Materials Management department met productivity improvement objectives with implementation of a stores bar-coding system designed to improve transaction integrity and reduce paperwork. Through identification of obsolete items and postponement of some projects, Materials Management also reduced the company's inventory of materials and supplies from $36 million to $30 million.

A review of the company's risk management program was conducted during the year and a detailed report on that and litigation practices, with a number of recommendations, was submitted for approval late in the year.

Environmental Engineering, which also forms part of the Real Estate and Administration division, oversaw improvements to the industrial waste treatment plant in the company's Squamish shops' area and developed conceptual plans for similar facilities in Prince George and elsewhere. The Squamish facility was near completion at year-end.

As described in the 1990 annual report, the operating railway company comprises five business units, in addition to the core rail freight business, the performance of each of which is tracked separately. A sixth unit, Fleet Management, is currently being formed. As an originating carrier, BC Rail operates more than 10,000 rail cars. The new unit is being created to optimize the return on this very large investment and to provide the best possible service to customers. The following pages contain a short report on the 1991 performance of each of the five existing units, against action plans developed during the strategic planning process.



Bulk Products market group was expanded and re-organized

Intermodal rates highly in customer poll

More than 80 per cent of shippers are well satisfied with Intermodal service and give high marks for reliability, quality and staff knowledge.

Like all other business units with direct customer contact, Intermodal Services' overriding 1991 goal was the achievement of improvements in customer service. As evidence that progress continued to be made during the year, an independent customer survey revealed that more than 80 per cent of Intermodal customers are "very highly," or "highly" satisfied with the service provided by the unit, compared with only 47 per cent of trucking industry customers surveyed. The Intermodal business unit rated highest for reliability, quality of pickup and delivery, responsiveness and staff knowledge.

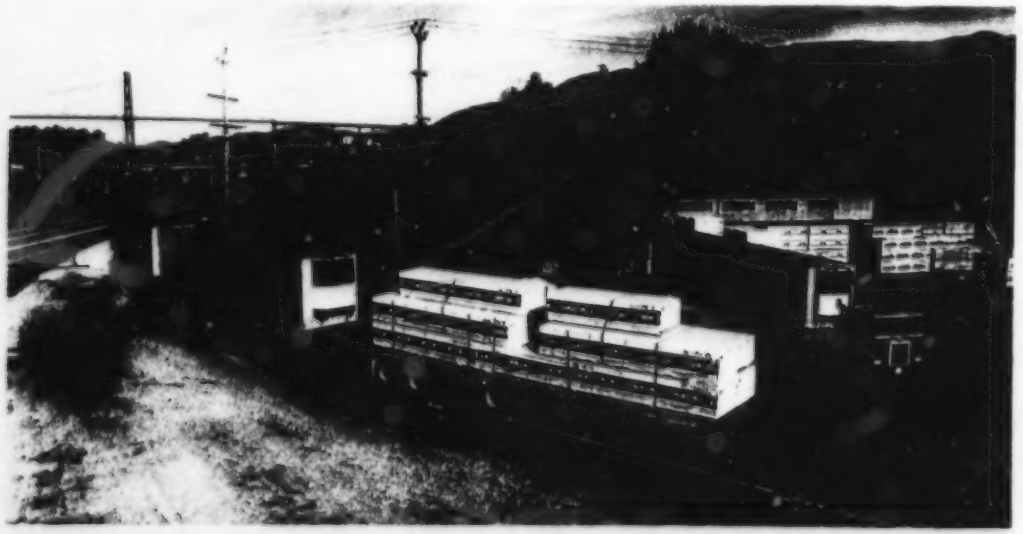
Throughout the year, regular, systemwide staff meetings were held with a view to improving service attitudes and to set standards for quality and reliability. The meetings were reinforced by the introduction of joint union/management team visits to customers to assess ways of improving service. In addition, new costing methods were developed to improve pricing responsiveness to customers and competitors.

Other Intermodal goals called for productivity improvements in all aspects of unit operations and to that end, improved dispatching and operations overall led to significant savings in pickup and delivery in the Vancouver area. The unit also developed a renewed five-year plan for road vehicles, to optimize productivity of Intermodal assets.

The introduction of permanently connected, triple-unit articulated rail cars, each designed to carry three road trailers or four ISO containers, brought significant improvements in rail handling of intermodal freight. The new units were custom-built in Canada to BC Rail specifications and are unique to the industry.

To further improve responsiveness to customer needs, the Intermodal unit also began evaluation of a computerized dispatch and equipment tracking system, aimed at improving efficiency in the Lower Mainland of B.C., as well as elsewhere in the operating area.

In pursuit of new products and markets, Intermodal is aggressively competing for woodchip and other trucking opportunities and exploring future possibilities for municipal solid waste transportation. A new pricing and sales plan has been developed for northbound traffic, including heavy equipment and automobile movements. The unit is also considering a warehouse facility in Prince George and seeking suitable opportunities for strategic alliances with other carriers.



Three-deck articulated cars mean smoother freight handling

Unit seeking best return on railway holdings

A new Squamish port development was proposed after a decade of study; the coordinating committee is reviewing public views and concerns.

Plan for Squamish port expansion is under development

The company's Real Estate Development unit is responsible for the management and development of lands owned and operated by the operating railway company, BC Rail Ltd., as well as BCR Properties' lands. Its objectives are to optimize revenues and long-term profitability of the properties, to maximize land values and to provide property management services to the railway and its associated company, BCR Properties Ltd.

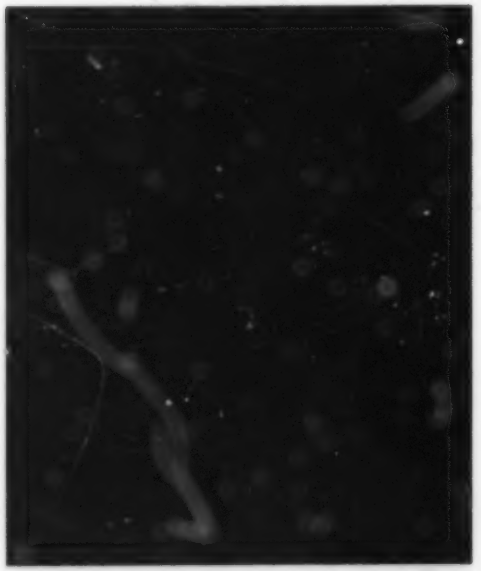
Among other initiatives, the unit has been working with the Squamish Estuary Coordinating Committee with a view to developing an acceptable plan for port development in the estuary lands. After more than 10 years of study and discussion, the committee reached consensus in the fall of 1991 and after public announcement of the proposals, invited submissions through information meetings and a public forum.

The proposal calls for the exchange by BC Rail of 700 acres of environmentally-sensitive land for 150 acres regarded as more suitable for development of a three-berth port facility. The closing date for public submissions was extended and input since received is under review by the committee, prior to submission of a plan for community approval.

Other developments contemplated include approximately 1,200 acres of land at Porteau Cove, north of Vancouver, where planning is in progress for a golf course, related facilities and an adjacent residential development. The concept has been well-received by both the public and the regional district authority and a formal proposal call for development of the course is expected to be made in 1992. Development possibilities for other railway-owned properties are also under consideration, including landholdings in the Lower Mainland-Whistler corridor.

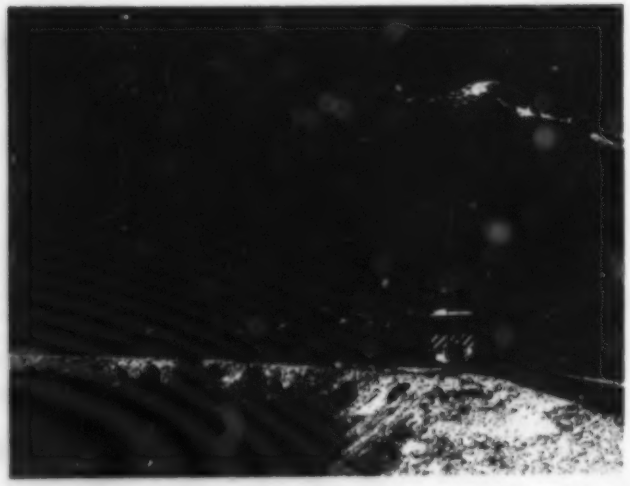
Land leasing continues to be a major revenue source for the Real Estate unit, which is also responsible for commercial leasing of surplus accommodation in the North Vancouver headquarters building. The strategically-located BC Rail Centre offers approximately 34,000 square feet of leasable space, most of which is currently occupied. The unit markets vacant space both directly and through licensed real estate brokers.

Since it was formed in 1984, the Real Estate business unit has actively promoted and marketed its landholdings and within the framework of the railway's strategic plan, will be placing added emphasis on commercial and industrial properties to generate an income stream for the future.



Best year since the late '50s

Although B.C. felt the pinch of a tourism downturn, the railway's friendly, scenic travel experience bucked the trend and grew.



Passenger service popularity is rising

Despite a recession-related downturn in the B.C. tourism industry, BC Rail's Passenger Services unit recorded its highest passenger count since the late 1950s. A total of 102,484 customers travelled the railway's scenic route between Vancouver and Prince George during the year and ridership levels to virtually all points served rose over earlier years.

Among the unit's 1991 objectives was an increase of in-season traffic in the North Vancouver-Whistler-Lillooet corridor. An extensive advertising campaign highlighted day trips to Lillooet and a number of new products featuring the Royal Hudson steam train. Scheduled Budd car service combined with the Royal Hudson and boat or road segments, also brought new traffic. This was somewhat offset, however, by a reduction in U.S.-originating tour groups.

To meet the goal of increased marketing and sales of both summer and winter products, the unit focused on opportunities to develop vacation packages to all points served. Early efforts were hampered by difficulties in appointing a suitable tour wholesaler to create and market the packages. Agreement was reached in late summer, however, and fall packages to all major destinations were launched in mid-year.

In keeping with Royal Hudson steam train objectives, marketing efforts concentrated on the Greater Vancouver urban area with the accent on family outings. Poor early summer weather got the season off to a bad start and exceptionally heavy rainfall in late August kept overall ridership down. The unit worked closely with Squamish community groups, particularly the local chamber of commerce, to add to the appeal of the day-trip experience.

During the year, Passenger Services launched a new, luxury charter product called Summit Service. Summit employs the railway's business cars which previously were used mainly for Board and executive rail line inspections and for business functions and receptions in recognition of long-service and retiring employees. While 1991 was the railway's best year ever for charter operations overall, Summit Service started slowly as a result of the recession. Passenger Services is confident, however, that there is a market niche for such a service and is optimistic that sales will increase as the economy improves.

Royal Hudson excursions, June through September

The department's customer service capability was improved near year-end as a result of a major reorganization of frontline service staff. Further improvements will result from the planned addition of a computerized reservation and ticketing system scheduled for 1992.

Competitive pricing initiatives launched

A CRTC decision on a proposed joint venture is awaited as network is upgraded from analog to digital.

A microwave repeater at 6,360 feet above sea level (12 miles west of Lillooet)

Key 1991 goals of the Commercial Telecommunications business unit included the protection and expansion of its existing market share, the development of new products and markets and the pursuit of strategic alliances.

Market share initiatives launched during the year included new pricing for analog services, which provide for greater discounts than those offered by competitors and are deeper than those previously allowed by the Canadian Radio-Television and Telecommunications Commission (CRTC). The decision was unsuccessfully appealed by a competitor with the result that the telecommunications marketing arm can now offer discounts of more than 15 per cent against the prices of its major competitor. This allows more pricing freedom for the Commercial Telecommunications business unit.

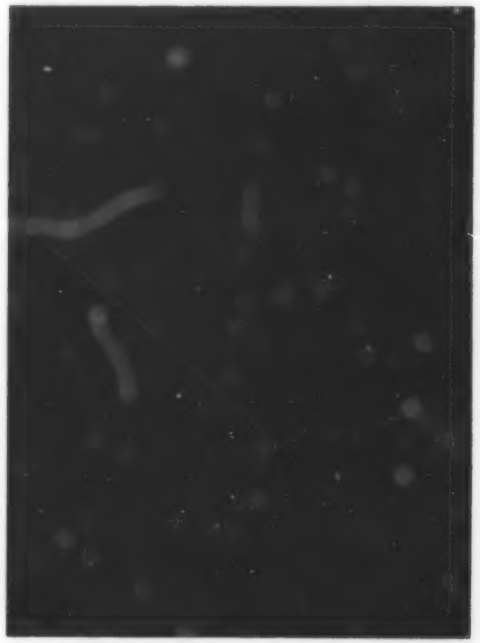
During the year, incentives for longer-term contracts were also offered to customers and in view of the savings available for contracts up to 10 years in duration, the program met with some success. Digital upgrading of the company's microwave system is scheduled for completion in May, 1992 and will offer competitive service in existing markets when the new system becomes operative.

Towards achievement of its goal to develop new products and marketing initiatives, preliminary planning with potential joint venture partners to expand the BC Rail network coverage to include Kamloops, Victoria and U.S. border communities is in progress. A CRTC decision for approval of the BC Rail/Call-Net/Lightel (BCRL) joint venture to enter the long distance telephone market across Canada is still awaited and expected in mid-1992. Call-Net is the largest telecommunications reseller in Canada.

If approved, BC Rail and Call-Net/Lightel will be allowed to interconnect their networks in B.C., Ontario and Quebec to the Public Switched Telephone Network, to provide public switched and dedicated voice and data service. The combined facilities of the two companies will create additional strength in information processing for small to medium-size businesses and create opportunities in the residential field.

The Commercial Telecommunications business unit was formed in 1985, with a mandate to broaden the railway's existing telecommunications revenue base in competition with established carriers. The unit's growing list of users includes recreational and hospitality businesses in and around Whistler, B.C., provincial and federal government departments and resource companies located in the railway's operating area.

The BCRL joint venture aims to meet growing demand for competitive voice and information services. Plans also include a variety of value-added and specialized telephone services.



Consulting venture extending its reach

With experience in 14 countries behind it, IRC is seeking other opportunities in South America and Asia.

Among other African projects, IRC consulted to Botswana Railways on track upgrading

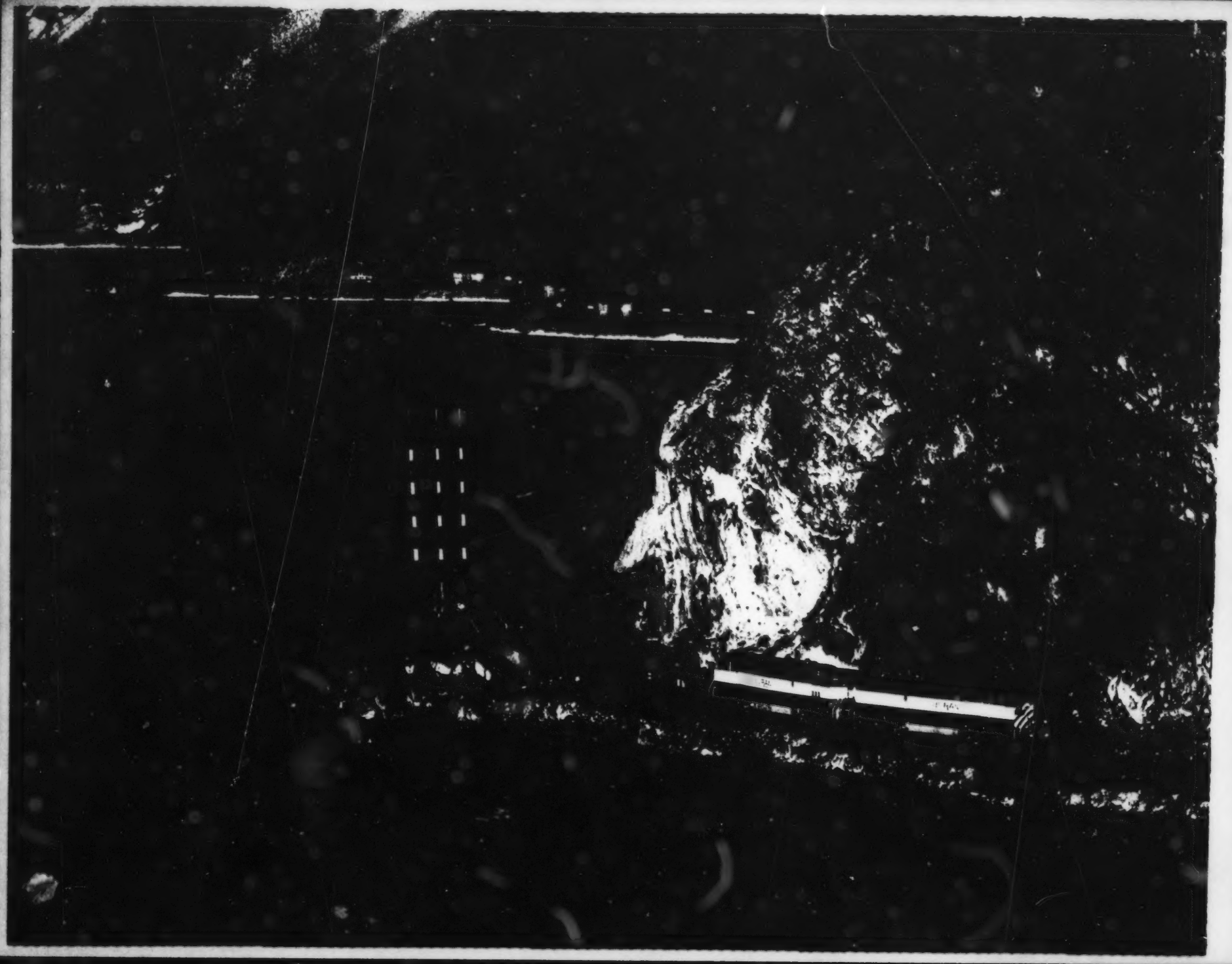
International Rail Consultants (IRC) is a joint venture with the international engineering firm Sandwell Inc. During the year under review, the unit provided technical assistance in 10 southern African countries, as well as in Bangladesh, Cameroon, Colombia and Venezuela.

In Venezuela, the unit carried out cost estimating for a new coal line and in Colombia, for upgrading an existing narrow gauge coal line to handle unit trains. The Colombian project also involves development of a 12-mile rail line to a minesite at La Loma, development of a port-loading rail loop and construction of motive power and rolling stock maintenance facilities.

In order to achieve a more balanced geographical distribution of consulting activities, goals for the coming year include increased business development efforts in Asia and elsewhere in South America. To develop a more diversified revenue base, sources of business other than the Canadian International Development Agency are being sought through the World Bank and private trade and industry contacts.

Corresponding to the resurgence of international consulting activities, a full-time director and business development officer was appointed to IRC during the first quarter of 1992, to fill the position left vacant since 1990.

International Rail Consultants offers a full range of structural, mechanical, industrial and electrical engineering capability, as well as construction and project management skills. Principal areas of expertise are in railway electrification, plant design and maintenance, telecommunications capacity and network analysis, railway management information systems, rolling stock procurement, rebuild and maintenance and general management.



British Columbia Railway Company
Consolidated Financial Statements

British Columbia Railway Company
Report of Management

The accompanying consolidated financial statements of British Columbia Railway Company and all other information contained in the Annual Report are the responsibility of management. The consolidated financial statements were prepared in conformity with generally accepted accounting principles appropriate in the circumstances in a manner consistent with the previous year and, accordingly include some amounts based on management's best judgements and estimates. The financial information contained elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for maintaining a system of internal accounting controls and procedures to provide reasonable assurance, at an appropriate cost/benefit relationship, that assets are safeguarded and that transactions are authorized, recorded and reported properly. The internal accounting control system is augmented by a program of internal audits and appropriate reviews by management, written policies and guidelines and a written Code of Business Conduct adopted by the Board of Directors, applicable to all employees of the company. Management believes that the company's internal accounting controls provide reasonable assurance that assets are safeguarded against material loss from unauthorized use or disposition and that the financial records are reliable for preparing financial statements and other data and maintaining accountability for assets.

The Audit and Finance Committee of the Board of Directors, composed of directors, the majority of whom are not officers of the company, meets with the independent auditors, management and internal auditors periodically to discuss internal accounting controls, auditing and financial reporting matters. The committee reviews with the independent auditors the scope and results of the audit effort. The committee also meets with the independent auditors without management present to ensure that the independent auditors have free access to the committee. The committee reviews the consolidated annual financial statements and recommends their approval by the Board of Directors.

The independent auditors, Coopers & Lybrand, are appointed by the Lieutenant Governor in Council to examine the financial statements of British Columbia Railway Company and conduct such tests and related procedures as they deem necessary in conformity with generally accepted auditing standards. The opinion of the independent auditors, based upon their examination of the financial statements, is contained in this Annual Report.

P. J. McElligott
President and
Chief Executive Officer

R. Clarke
Vice-President,
Finance and Information Services

Auditors' Report

To the Lieutenant Governor in Council
Province of British Columbia

We have audited the consolidated balance sheets of British Columbia Railway Company as at December 31, 1991 and 1990 and the consolidated statements of income and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1991 and 1990 and the results of its operations and the changes in its cash position for the years then ended in accordance with generally accepted accounting principles.

Coopers & Lybrand

Vancouver, Canada
February 7, 1992

British Columbia Railway Company
Consolidated Income and Retained Earnings
(Dollars in Thousands)

For the years ended December 31	1991	1990 Restated (Note 10)
Revenues		
Rail operations	$ 310,882	$ 285,464
Government assistance - Note 8	9,107	9,589
	319,989	295,053
Expenses		
Operations	70,958	67,382
Equipment	61,503	64,419
Road	38,154	42,980
Depreciation	41,806	39,423
General and administration	29,451	24,585
	241,872	238,789
Railway operating income	78,117	56,264
Non-operating income (expense)		
Interest - Note 9	(9,982)	(9,048)
Other income	5,199	4,287
Large Corporations tax	(2,246)	(1,950)
Income before minority interest	71,088	49,553
Minority interest	(17,251)	(17,271)
Net income	53,837	32,282
Retained earnings, beginning of year	173,123	149,649
Prior period adjustment - Note 10	(2,229)	(729)
As restated	170,894	148,920
Dividends paid	(10,308)	(10,308)
Retained earnings, end of year	$ 214,423	$ 170,894

On behalf of the Board

David Gilmour
Director

Paul J. McGeer
Director

British Columbia Railway Company
Consolidated Balance Sheets
(Dollars in Thousands)

December 31	1991	1990 Restated (Note 10)
Assets		
Current assets		
Cash and short-term investments	$ 14,433	$ (1,598)
Accounts receivable	35,812	34,834
Material and other items	33,234	39,844
	83,479	73,080
Property and equipment		
Road and buildings	1,329,304	1,297,195
Equipment	327,052	325,165
	1,656,356	1,622,360
Accumulated depreciation	399,186	365,924
	1,257,170	1,256,436
	$ 1,340,649	$ 1,329,516
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	$ 89,521	$ 91,904
Current obligations on long-term debt	2,413	29,867
	91,934	121,771
Long-term debt - Note 2	79,387	81,946
Minority interest - Note 3	186,501	186,501
Shareholder's equity		
Share capital - Note 4	257,688	257,688
Contributed surplus	510,716	510,716
Retained earnings - Note 10	214,423	170,894
	982,827	939,298
Commitments - Note 5		
Contingent liabilities - Note 6		
	$ 1,340,649	$ 1,329,516

British Columbia Railway Company
Consolidated Cash Flow

(Dollars in Thousands)

For the years ended December 31	1991	1990 Restated (Note 10)
Operating activities		
Net income	**$ 53,837**	$ 32,282
Add (deduct)		
Item not affecting working capital		
Depreciation	**41,806**	39,423
Net changes in non-cash working capital		
Accounts receivable	**(978)**	5,169
Material and other items	**6,610**	(1,291)
Accounts payable	**(1,993)**	(9,410)
Minority interest in earnings	**17,251**	17,271
Interest	**9,982**	9,048
	126,515	92,492
Investing activities		
Additions to property and equipment	**(45,132)**	(106,118)
Change in payables for equipment purchases	**(390)**	367
Government assistance for capital items	**2,592**	3,262
	(42,930)	(102,489)
Financing activities		
Issue of long-term debt	**0**	27,695
Repayment of long-term debt	**(30,013)**	(27,071)
Interest	**(9,982)**	(9,048)
Dividends paid to minority interest	**(17,251)**	(17,271)
Reduction in minority interest	**0**	(385)
	(57,246)	(26,080)
Dividends paid	**(10,308)**	(10,308)
Increase (decrease) in cash	**16,031**	(46,385)
Cash and short-term investments, beginning of year	**(1,598)**	44,787
Cash and short-term investments, end of year	**$ 14,433**	$ (1,598)

British Columbia Railway Company
Notes to Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting regulations prescribed by the National Transportation Agency of Canada have been adopted to the extent that this is possible without submitting specific accounting policies and depreciation rates to the Agency for approval.

Basis of consolidation

The consolidated financial statements include the accounts of British Columbia Railway Company and its subsidiaries, BC Rail Ltd. and BCR Properties Ltd. In these notes "company" refers to British Columbia Railway Company and its subsidiaries. All significant inter-company transactions are eliminated.

Class of business

The company provides a fully integrated rail freight service within British Columbia. Services other than hauling freight are not of sufficient size to warrant separate reporting.

Road property

New construction is recorded at cost net of Government grants. Abandoned or relocated sections are removed at average unit costs. Elements of track structure installed during planned programs are recorded at cost and the material replaced is removed at amounts which approximate average unit costs. Labour costs for programmed replacements are expensed as incurred.

Depreciation

Depreciation is provided for major categories of property and equipment on the straight-line basis at composite rates estimated to reduce the original cost to estimated salvage value over the average service lives of the classes. The group method is used for recording depreciation under which, on disposal, the original cost of assets retired less salvage value is charged against accumulated depreciation. No gain or loss on retirements, other than on accidental destruction of rolling stock and on disposal of land, is included in income. The original cost of assets less estimated salvage value is depreciated over the following number of years:

	Number of Years
Grade and tunnels	100
Rail	35
Ties	20 - 50
Ballast	25
Bridges	30 - 80
Locomotives and power units	25
Freight cars	15 - 33

Repairs

Repairs and non-programmed replacements of track structure are charged against current operations. Betterments and major track relocations are capitalized.

Material and supplies

Inventories of material and supplies are valued at the lower of average cost and net realizable value.

Government assistance

Grants directly related to the construction or rehabilitation of road property have offset related road property capital expenditures. Operating assistance has been deducted from the related expense accounts or included in revenue.

Income taxes

Income tax expense is computed on the basis of accounting income recorded by BC Rail Ltd. The income of British Columbia Railway Company and BCR Properties Ltd. is exempt from income taxes.

Transactions in foreign currency

Transactions originating in foreign currency are translated at the approximate exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currency at the balance sheet date are translated to equivalent Canadian amounts at the current rate of exchange.

Leases

Certain long-term lease transactions relating to the financing of equipment are accounted for as purchases. The capital lease obligations reflect the present value of future minimum rental payments discounted at the interest rate implicit in the leases. The capitalized values of depreciable assets are generally depreciated over the related lease terms in equal annual amounts. Costs of all other leases are charged against operations as incurred.

2. LONG-TERM DEBT

Long-term debt outstanding, less current maturities, consists of the following (in thousands):

	1991	1990
Sinking fund bonds and debentures payable to the Province of British Columbia (the Province)		
11.00%, due June 1995	**$ 25,000**	$ 25,000
10.99%, due August 2005	**24,490**	24,490
	49,490	49,490
Less sinking fund	**1,556**	1,244
	47,934	48,246
Capital lease obligations - Notes 5 and 12	**33,866**	35,872
Short-term notes payable to the Province	**0**	27,695
	81,800	111,813
Deduct current portion	**2,413**	29,867
	$ 79,387	$ 81,946

3. MINORITY INTEREST

The minority interest consists of 7,460,045 series 1-A first preferred shares with a par value of $25 each issued by BC Rail Ltd. These shares are designated as $2.3125 cumulative, redeemable and retractable. The retraction privilege has expired.

BC Rail Ltd. must make all reasonable efforts in each quarter to purchase for cancellation on the open market three-quarters of 1% of the series 1-A preferred shares outstanding at the beginning of the quarter at a price not to exceed $25 per share and all transaction costs. If it is unable to fulfill its obligation in any calendar quarter the obligation will carry over only to the successive calendar quarters of the same calendar year and will thereafter be extinguished. No shares were purchased in 1991. During 1990, 15,400 shares were purchased on the open market and subsequently cancelled.

4. SHARE CAPITAL

Authorized:

10,000,000 shares with a par value of $100 each.

Issued and outstanding:

2,576,885 shares held by the Province.

As all of the shares are held by the Province, earnings per share have not been provided.

5. COMMITMENTS

The company has significant lease commitments for rolling stock and additional minor lease commitments for equipment and real estate which expire at various dates prior to the year 2003. Certain of these leases transfer substantially all of the benefits and risks of ownership to the company and are accounted for as capital leases.

The following is a schedule of future minimum rental payments at December 31, 1991 required under non-cancellable leases that have remaining terms in excess of one year (in thousands):

	Capital Leases	Operating Leases
1992	$ 6,780	$ 13,302
1993	6,780	11,225
1994	6,780	8,119
1995	6,780	8,119
1996	6,780	6,261
Later years	24,013	12,047
Total minimum lease payments	57,913	$ 59,073
Less		
Executory costs	4,439	
Imputed interest	19,608	
Present value	$ 33,866	

Assets under capital leases recorded in the property and equipment accounts as at December 31, with effective interest rates in the range of 11.75% to 12.02% are as follows (in thousands):

	1991	1990
Equipment	$ 46,234	$ 46,283
Accumulated depreciation	21,195	19,363
	$ 25,039	$ 26,920

As at December 31, 1991 the company had outstanding purchase commitments for the acquisition of material and equipment amounting to $20 million.

6. CONTINGENT LIABILITIES

The company is contingently liable with respect to pending litigation and claims arising in connection with rail line construction and in the normal course of business. In the opinion of management, any liability that may arise will be capitalized or would not have a material adverse effect on future income.

7. INCOME TAX

At December 31, 1991, BC Rail Ltd. had approximately $108 million excess income tax value over net book value of depreciable property and equipment which can be used to reduce future years' earnings for income tax purposes. Alternately, the Federal Government has proposed legislation which would permit transportation companies to apply non-capital taxation losses to rebate fuel taxes paid in 1991 and 1992. The income tax loss carryforward would be reduced by $10 for every $1 of fuel tax rebated. The potential fuel tax rebate in respect of 1991 is estimated at $1.9 million, which will be recorded once the law is enacted and which will reduce the available excess income tax values to $89 million.

8. GOVERNMENT ASSISTANCE

Government assistance was as follows (in thousands):

	1991	1990
Unapplied, beginning of year	$ 2,866	$ 518
Contributions during the year		
From the Province		
Fort Nelson Subdivision		
Operating	3,750	6,250
Rehabilitation	2,000	5,575
Passenger operations	2,064	3,438
Passenger car modernization	2,058	727
	9,872	15,990
From the Government of Canada		
Grain transportation	1,357	1,277
	11,229	17,267
Total available	14,095	17,785
Applied as follows		
Revenue		
Fort Nelson Subdivision	5,000	5,000
Passenger operations	2,750	3,312
Grain transportation	1,357	1,277
	9,107	9,589
Operating expenses		
Road	633	1,290
Equipment	398	778
	1,031	2,068
Property and equipment	2,593	3,262
Total applied	12,731	14,919
Unapplied, December 31	$ 1,364	$ 2,866

9. INTEREST EXPENSE

Interest expense was as follows (in thousands):

	1991	1990
Interest on long-term debt and notes to the Province	$ 6,706	$ 7,786
Interest on capital lease obligations	4,165	4,367
	10,871	12,173
Less		
Sinking fund earnings	121	119
Interest earned on temporary investments	768	3,006
	889	3,125
Net interest	$ 9,982	$ 9,048

10. PRIOR PERIOD ADJUSTMENT

During the year, the company repaid $2.2 million to its insurers in settlement of their successful appeal to the Appeal Court of British Columbia. In prior years, based on the decision of a lower court, the insurers had paid a claim and the amounts were taken into income. The comparative figures for 1990 have been restated with the balance being deducted from the retained earnings at January 1, 1990.

11. PENSION PLAN AND POSTEMPLOYMENT BENEFITS

The company maintains a contributory defined benefit plan which covers substantially all of its employees. The plan provides pensions based on length of service and average earnings.

An actuarial valuation of the plan as at December 31, 1991 indicates that the accrued pension obligations and the net assets available to provide for these obligations are as follows:

Accrued pension obligations	$ 238 million
Pension fund assets	$ 263 million

To reduce the excess of pension fund assets over the accrued pension obligations, a contribution holiday was implemented from March 1989 to March 1991.

The company also provides basic medical insurance coverage for all retired employees. The cost of the premiums is charged to income as they are paid.

12. RELATED PARTY TRANSACTIONS

Related party information not presented elsewhere in the notes to financial statements is presented below.

First preferred shares of BC Rail Ltd. and certain capital lease obligations are guaranteed by the Province. The Ministry of Finance and Corporate Relations of the Province acts as fiscal agent and the Superannuation Commission of the Province administers the company pension plan. Fees are charged for both of these services.

Except for income tax as described in Note 1, the company is subject to all taxes levied by the Province except most property taxes. All other transactions between the company and the Province are at terms no more nor less favourable than those with unrelated parties.

British Columbia Railway Company
Five-Year Review
Consolidated Statement
(Dollars in Thousands)

	FISCAL YEAR				
	1991	1990 Restated	1989	1988	1987 Restated
Revenues					
Rail operations	**$ 310,882**	$ 285,464	$ 319,903	$ 319,710	$ 315,707
Government assistance	**9,107**	9,589	9,050	7,284	9,890
	319,989	295,053	328,953	326,994	325,597
Expenses					
Operations	**70,958**	67,382	67,974	70,674	71,112
Equipment	**61,503**	64,419	67,644	66,580	66,786
Road	**38,154**	42,980	45,570	45,516	47,677
Depreciation	**41,806**	39,423	36,985	35,853	34,870
General and administration	**29,451**	24,585	23,542	24,086	23,542
	241,872	238,789	241,715	242,709	243,987
Railway operating income	**78,117**	56,264	87,238	84,285	81,610
Non-operating income (expense)					
Interest	**(9,982)**	(9,048)	(8,663)	(11,145)	(11,839)
Other income	**5,199**	4,287	4,838	3,676	3,267
Large Corporations tax	**(2,246)**	(1,950)	(931)	0	0
Income before deferred income taxes	**71,088**	49,553	82,482	76,816	73,038
Recovery of deferred income taxes	**0**	0	0	0	517
Income before minority interest	**71,088**	49,553	82,482	76,816	73,555
Minority interest	**(17,251)**	(17,271)	(17,893)	(18,500)	(18,500)
Income before extraordinary item	**53,837**	32,282	64,589	58,316	55,055
Extraordinary item	**0**	0	(80,646)	0	0
Net income (loss)	**$ 53,837**	$ 32,282	$ (16,057)	$ 58,316	$ 55,055
CARLOADINGS					
Revenue cars loaded on line	**216,032**	197,643	215,651	222,762	229,506
Received from connections	**2,321**	2,101	2,991	3,209	3,656
Total carloadings	**218,353**	199,744	218,642	225,971	233,162
MOTIVE POWER – Electric	7	7	7	7	7
– Diesel	100	114	114	116	117
ROLLING STOCK – Freight	9,956	9,958	9,914	9,908	10,107
– Passenger	12	9	9	9	9
– Boarding and work	405	472	505	469	449
TONS HAULED (Thousands)	17,434	15,827	16,955	17,340	17,670
EMPLOYEES AT YEAR END	2,300	2,480	2,700	2,700	2,760

British Columbia Railway Company
Financial Review

The consolidated net income for 1991 was $53.8 million. This compares with consolidated income of $32.3 million for 1990. This increase of 67% was mainly a result of an 8% increase in revenue. Operating expenses increased by 1%. Due to improved operating efficiency 1991 operational expenses would have been lower than 1990, but for a number of non-recurring expenses amounting to $8 million.

Revenues

Due to the continuing recession both in Canada and the United States during 1991, overall freight revenue deteriorated. However, compared with 1990, 1991 was free from labour disputes and major line closures resulting in an overall increase in operating revenue of 8% from 1990 levels. The increased use of leased equipment, shipper owned and shipper managed cars contributed to a 15% decline in equipment rental revenues from 1990.

Expenses

Consolidated operating expenses increased by $3.1 million (1%) to $241.9 million for 1991.

The average price of fuel decreased by 10% from 1990 and, when added to improvements in operating efficiency from new and rebuilt locomotives, resulted in a reduction in fuel costs of $1.6 million in 1991.

Labour costs increased by $4.4 million over the 1990 level. This increase was mainly due to a one month labour dispute in 1990, and wage increases.

Equipment maintenance costs decreased by $2.9 million (5%) from the 1990 level. This reduction was achieved by deferral of discretionary maintenance programs, and the continued beneficial effect of the recent rebuilding and acquisition of locomotives.

Road maintenance costs were reduced by 11% ($4.8 million) from 1990 by the reorganization and reduction of capital and maintenance programs in response to the reduced traffic levels during the recession.

Depreciation costs increased $2.4 million (6%) over 1990, the result of continued upgrading of the company's equipment and physical plant. This upgrading over the past few years was also a contributing factor in the current cost reductions in equipment and road maintenance.

General and administration expenses increased by $4.9 million (20%) over the 1990 levels. The main contributors to this increase were a write-off of obsolete inventory, increased advertising costs, and general wage and benefit increases.

Operating Ratio

The company's operating ratio, the ratio of operating expenses including depreciation, to revenue, improved in 1991 to .76 (1990 - .81).

Non-Operating Items

Due to reduced short-term investments offsetting interest charges, interest expense increased during 1991 by 10% to $10 million.

The Large Corporations tax for 1991 increased by 15% over 1990 as a result of a tax rate increase.

Minority Interest

The minority interest on the consolidated income statement reflects the payment of dividends by the operating subsidiary, BC Rail Ltd., to holders of its series 1-A preferred shares. Due to the retraction and repurchase of shares in 1989 and 1990, the dividend payments declined by $20,000.

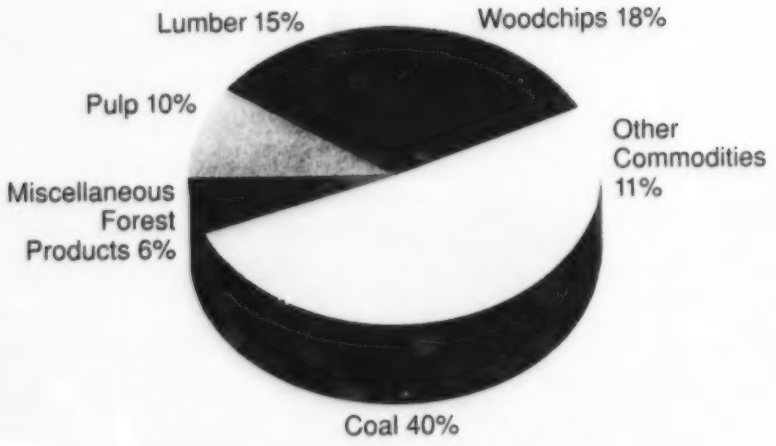
Dividends Paid

In 1991 British Columbia Railway Company paid its shareholder, the Province of British Columbia, a dividend of $10.3 million on its common shares. This is the sixth successive year that a dividend of this amount has been paid.

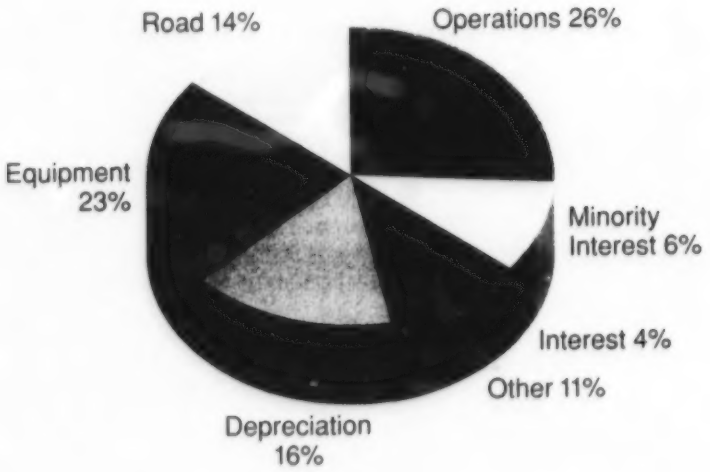
Additional Comments

Substantially all of the group's operations are conducted by BC Rail Ltd., for which additional discussion and analysis is provided.

Revenue Tons by Commodity



Consolidated Expenses



BC Rail Ltd.
Financial Statements

BC Rail Ltd.
Report of Management

The accompanying financial statements of BC Rail Ltd. and all other information contained in the Annual Report are the responsibility of management. The financial statements were prepared in conformity with generally accepted accounting principles appropriate in the circumstances in a manner consistent with the previous year and, accordingly include some amounts based on management's best judgements and estimates. The financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

Management is responsible for maintaining a system of internal accounting controls and procedures to provide reasonable assurance, at an appropriate cost/benefit relationship, that assets are safeguarded and that transactions are authorized, recorded and reported properly. The internal accounting control system is augmented by a program of internal audits and appropriate reviews by management, written policies and guidelines and a written Code of Business Conduct adopted by the Board of Directors, applicable to all employees of the company. Management believes that the company's internal accounting controls provide reasonable assurance that assets are safeguarded against material loss from unauthorized use or disposition and that the financial records are reliable for preparing financial statements and other data and maintaining accountability for assets.

The Audit and Finance Committee of the Board of Directors, composed of directors, the majority of whom are not officers of the company, meets with the independent auditors, management and internal auditors periodically to discuss internal accounting controls, auditing and financial reporting matters. The committee reviews with the independent auditors the scope and results of the audit effort. The committee also meets with the independent auditors without management present to ensure that the independent auditors have free access to the committee. The committee reviews the annual financial statements and recommends their approval by the Board of Directors.

The independent auditors, Coopers & Lybrand, are appointed by the shareholders to examine the financial statements of BC Rail Ltd. and conduct such tests and related procedures as they deem necessary in conformity with generally accepted auditing standards. The opinion of the independent auditors, based upon their examination of the financial statements, is contained in this Annual Report.

P.J. McEiligott
President and
Chief Executive Officer

R. Clarke
Vice-President,
Finance and Information Services

Auditors' Report

To the Shareholders

We have audited the balance sheets of BC Rail Ltd. as at December 31, 1991 and 1990 and the statements of loss and deficit, contributed surplus and cash flow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1991 and 1990 and the results of its operations and the changes in its cash position for the years then ended in accordance with generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

Coopers & Lybrand

Vancouver, Canada
February 7, 1992

BC Rail Ltd.
Loss and Deficit
(Dollars in Thousands)

For the years ended December 31	1991	1990 Restated (Note 9)
Revenues		
Rail operations	**$ 310,882**	$ 285,464
Government assistance - Note 7	**9,107**	9,589
	319,989	295,053
Expenses		
Operations	**70,958**	67,382
Equipment	**61,503**	64,419
Road	**38,201**	43,000
Depreciation	**41,806**	39,423
General and administration	**29,451**	24,525
	241,919	238,749
Railway operating income	**78,070**	56,304
Non-operating income (expense)		
Interest - Note 8	**(79,673)**	(85,666)
Other income	**2,375**	2,118
Large Corporations tax	**(2,246)**	(1,950)
Net loss	**(1,474)**	(29,194)
Deficit, beginning of year		
as previously reported	**(110,400)**	(82,706)
Prior period adjustments - Note 9	**(1,749)**	(249)
As restated	**(112,149)**	(82,955)
Deficit, end of year	**$(113,623)**	$(112,149)

On behalf of the Board

David Gilmour
Director

Paul J. McGeer
Director

BC Rail Ltd.
Balance Sheets
(Dollars in Thousands)

December 31	1991	1990 Restated (Note 9)
Assets		
Current assets		
Cash and short-term investments	**$ 14,433**	$ (1,598)
Accounts receivable	**35,812**	34,834
Material and other items	**33,210**	39,527
	83,455	72,763
Property and equipment		
Road and buildings	**1,322,578**	1,290,910
Equipment	**327,052**	325,165
	1,649,630	1,616,075
Accumulated depreciation	**399,186**	365,924
	1,250,444	1,250,151
	$ 1,333,899	$ 1,322,914
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	**$ 88,375**	$ 90,754
Due to related companies	**90,845**	108,734
Current obligations on long-term debt	**2,221**	1,981
	181,441	201,469
Long-term debt - Note 2	**711,039**	721,916
Shareholders' equity		
Share capital - Note 3	**399,811**	399,191
Contributed surplus	**155,231**	112,487
Deficit - Note 9	**(113,623)**	(112,149)
	441,419	399,529
Commitments - Note 4		
Contingent liabilities - Note 5		
	$ 1,333,899	$ 1,322,914

BC Rail Ltd.
Contributed Surplus
(Dollars in Thousands)

December 31	1991	1990
Balance, beginning of year	$ 112,487	$ 131,762
Contributed on issue of shares	61,995	0
Loss on redemption of shares	0	(4)
	174,482	131,758
Dividends paid		
Preferred shares	17,251	17,271
Common shares	2,000	2,000
	19,251	19,271
Balance, end of year	$ 155,231	$ 112,487

BC Rail Ltd.
Cash Flow
(Dollars in Thousands)

For the years ended December 31	1991	1990 Restated (Note 9)
Operating activities		
Net loss	$ (1,474)	$ (29,194)
Add (deduct)		
Item not affecting working capital		
Depreciation	41,806	39,423
Net changes in non-cash working capital		
Accounts receivable	(978)	5,169
Material and other items	6,317	(997)
Accounts payable	(1,989)	(7,859)
Related company accounts	(17,889)	21,448
Interest	79,673	85,666
	105,466	113,656
Investing activities		
Additions to property and equipment	(44,691)	(105,064)
Change in payables for equipment purchases	(390)	367
Government assistance for capital items	2,592	3,262
	(42,489)	(101,435)
Financing activities		
Issue of long-term debt	81,079	73,482
Repayment of long-term debt	(91,716)	(26,762)
Interest	(79,673)	(85,666)
Issue of preferred shares	62,615	0
Redemption of preferred shares	0	(385)
Loss on redemption of shares	0	(4)
	(27,695)	(39,335)
Dividends paid	(19,251)	(19,271)
Increase (decrease) in cash	16,031	(46,385)
Cash and short-term investments, beginning of year	(1,598)	44,787
Cash and short-term investments, end of year	$ 14,433	$ (1,598)

BC Rail Ltd.
Notes to Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting regulations prescribed by the National Transportation Agency of Canada have been adopted to the extent that this is possible without submitting specific accounting policies and depreciation rates to the Agency for approval.

Class of business

The company provides a fully integrated rail freight service within British Columbia. Services other than hauling freight are not of sufficient size to warrant separate reporting.

Road property

New construction is recorded at cost net of Government grants. Abandoned or relocated sections are removed at average unit costs. Elements of track structure installed during planned programs are recorded at cost and the material replaced is removed at amounts which approximate average unit costs. Labour costs for programmed replacements are expensed as incurred.

Depreciation

Depreciation is provided for major categories of property and equipment on the straight-line basis at composite rates estimated to reduce the original cost to estimated salvage value over the average service lives of the classes. The group method is used for recording depreciation under which, on disposal, the original cost of assets retired less salvage value is charged against accumulated depreciation. No gain or loss on retirements, other than on accidental destruction of rolling stock and on disposal of land, is included in income. The original cost of assets less estimated salvage value is depreciated over the following number of years:

	Number of Years
Grade and tunnels	100
Rail	35
Ties	20 - 50
Ballast	25
Bridges	30 - 80
Locomotives and power units	25
Freight cars	15 - 33

Repairs

Repairs and non-programmed replacements of track structure are charged against current operations. Betterments and major track relocations are capitalized.

Material and supplies

Inventories of material and supplies are valued at the lower of average cost and net realizable value.

Government assistance

Grants directly related to the construction or rehabilitation of road property have offset related road property capital expenditures. Operating assistance has been deducted from the related expense accounts or included in revenue.

Income taxes

Income tax expense is computed on the basis of accounting income recorded by the company.

Transactions in foreign currency

Transactions originating in foreign currency are translated at the approximate exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currency at the balance sheet date are translated to equivalent Canadian amounts at the current rate of exchange.

Leases

Certain long-term lease transactions relating to the financing of equipment are accounted for as purchases. The capital lease obligations reflect the present value of future minimum rental payments discounted at the interest rate implicit in the leases. The capitalized values of depreciable assets are generally depreciated over the related lease terms in equal annual amounts. Costs of all other leases are charged against operations as incurred.

2. LONG-TERM DEBT

Long-term debt outstanding, less current maturities, consists of the following (in thousands):

	1991	1990
Capital lease obligations -		
Notes 4 and 11	**$ 33,866**	$ 35,872
Deduct current portion	**2,221**	1,981
	31,645	33,891
Notes payable to British Columbia Railway Company		
0.00%, due June 1992	**40,245**	40,245
0.00%, due January 1993	**81,079**	0
9.70%, due June 1991	**0**	62,210
9.96%, due June 1992	**68,245**	68,245
10.34%, due January 1995	**73,482**	73,482
10.40%, due June 1995	**13,843**	41,343
	276,894	285,525
Note payable to BCR Properties Ltd.		
14%, due June 1999	**402,500**	402,500
	$711,039	$721,916

It is management's intention to refinance the notes payable to British Columbia Railway Company as they mature.

3. SHARE CAPITAL

Authorized:

5,000,000 common shares with a par value of $100 each.

20,000,000 first preferred shares with a par value of $25 each of which 8,000,000 are designated as $2.3125 cumulative redeemable retractable first preferred shares, series 1-A. The retraction privilege has expired.

20,000,000 second preferred shares with a par value of $100 each. 3,000,000 have been designated as series 2-A non-cumulative and redeemable. 10,000 have been designated as series 2-B and 6,200 series 2-C non-cumulative, redeemable and retractable with a dividend rate of 8% and a retraction price of $10,100 per share.

Issued and outstanding ($ in thousands):

Shares		1991	1990
500,012	common	**$ 50,001**	$ 50,001
7,460,045	series 1-A preferred	**186,501**	186,501
1,616,892	series 2-A preferred	**161,689**	161,689
10,000	series 2-B preferred	**1,000**	1,000
6,200	series 2-C preferred	**620**	0
		$ 399,811	$ 399,191

As all of the common shares are held by British Columbia Railway Company and its wholly owned subsidiary, earnings per share have not been provided.

The company must make all reasonable efforts in each quarter to purchase for cancellation on the open market three-quarters of 1% of the series 1-A preferred shares outstanding at the beginning of the quarter at a price not to exceed $25 per share and all transaction costs. If it is unable to fulfill its obligation in any calendar quarter, the obligation will carry over only to the successive calendar quarters of the same calendar year and will thereafter be extinguished. No shares were purchased in 1991. During 1990, 15,400 shares were purchased on the open market and subsequently cancelled.

During the current year, the company issued to the British Columbia Railway Company and its wholly-owned subsidiary 6,200 second preferred shares with a par value of $100 each, designated as series 2-C non-cumulative, redeemable and retractable, for a total consideration of $62,620,000. The retraction price is $10,100 per share.

4. COMMITMENTS

The company has significant lease commitments for rolling stock and additional minor lease commitments for equipment and real estate, which expire at various dates prior to the year 2003. Certain of these leases transfer substantially all of the benefits and risks of ownership to the company and are accounted for as capital leases.

The following is a schedule of future minimum rental payments at December 31, 1991 required under non-cancellable leases that have remaining terms in excess of one year (in thousands):

	Capital Leases	Operating Leases
1992	$ 6,780	$ 13,302
1993	6,780	11,225
1994	6,780	8,119
1995	6,780	8,119
1996	6,780	6,261
Later years	24,013	12,047
Total minimum lease payments	57,913	$ 59,073
Less		
Executory costs	4,439	
Imputed interest	19,608	
Present value	$ 33,866	

Assets under capital leases recorded in the property and equipment accounts as at December 31 with effective interest rates in the range of 11.75% to 12.02% are as follows (in thousands):

	1991	1990
Equipment	$ 46,234	$ 46,283
Accumulated depreciation	21,195	19,363
	$ 25,039	$ 26,920

As at December 31, 1991 the company had outstanding purchase commitments for the acquisition of material and equipment amounting to $20 million.

5. CONTINGENT LIABILITIES

The company is contingently liable with respect to pending litigation and claims arising in connection with rail line construction and in the normal course of business. In the opinion of management, any liability that may arise will be capitalized or would not have a material adverse effect on future income.

6. INCOME TAX

At December 31, 1991, the company had approximately $108 million excess income tax value over net book value of depreciable property and equipment, which can be used to reduce future years' earnings for income tax purposes. Alternately, the Federal Government has proposed legislation which would permit transportation companies to apply non-capital taxation losses to rebate fuel taxes paid in 1991 and 1992. The income tax loss carryforward would be reduced by $10 for every $1 of fuel tax rebated. The potential fuel tax rebate in respect of 1991 is estimated at $1.9 million, which will be recorded once the law is enacted and which will reduce the available excess income tax values to $89 million.

7. GOVERNMENT ASSISTANCE

Government assistance was as follows (in thousands):

	1991	1990
Unapplied, beginning of year	$ 2,866	$ 518
Contributions during the year		
From the Province		
Fort Nelson Subdivision		
Operating	3,750	6,250
Rehabilitation	2,000	5,575
Passenger operations	2,064	3,438
Passenger car modernization	2,058	727
	9,872	15,990
From the Government of Canada		
Grain transportation	1,357	1,277
	11,229	17,267
Total available	14,095	17,785
Applied as follows		
Revenue		
Fort Nelson Subdivision	5,000	5,000
Passenger operations	2,750	3,312
Grain transportation	1,357	1,277
	9,107	9,589
Operating expenses		
Road	633	1,290
Equipment	398	778
	1,031	2,068
Property and equipment	2,593	3,262
Total applied	12,731	14,919
Unapplied, December 31	$ 1,364	$ 2,866

8. INTEREST EXPENSE

Interest expense was as follows (in thousands):

	1991	1990
Interest on notes payable		
BCR Properties Ltd.	**$ 56,350**	$ 56,350
British Columbia Railway Company	**19,163**	25,002
	75,513	81,352
Interest on capital lease obligations	**4,165**	4,387
Interest to related companies	**763**	2,933
	80,441	88,672
Less interest income	**768**	3,006
	$ 79,673	$ 85,666

9. PRIOR PERIOD ADJUSTMENTS

During the year, the company repaid $2.2 million to its insurers in settlement of their successful appeal to the Appeal Court of British Columbia. In prior years, based on the decision of a lower court, the insurers had paid a claim and the amounts were taken into income. The comparative data for 1990 have been restated with the balance being added to the deficit at January 1, 1990.

During the year, the company's parent corrected the accounting for a 1989 property sale for $480,000, the income from which should have been included in the income of the company. This amount has been deducted from the deficit at January 1, 1990 and the comparative figures have been restated.

10. PENSION PLAN AND POSTEMPLOYMENT BENEFITS

The company maintains a contributory defined benefit plan which covers substantially all of its employees. The plan provides pensions based on length of service and average earnings.

An actuarial valuation of the plan as at December 31, 1991 indicates that the accrued pension obligations and the net assets available to provide for these obligations are as follows:

Accrued pension obligations	$ 238 million
Pension fund assets	$ 263 million

To reduce the excess of pension fund assets over the accrued pension obligations, a contribution holiday was implemented from March 1989 to March 1991.

The company also provides basic medical insurance coverage for all retired employees. The cost of the premiums is charged to income as they are paid.

11. RELATED PARTY TRANSACTIONS

Related party information not presented elsewhere in the notes to financial statements is presented below.

All of the outstanding common and second preferred shares of the company are owned as follows:

BCR Properties Ltd. (a wholly owned subsidiary of British Columbia Railway Company)	75%
British Columbia Railway Company	25%

First preferred shares and certain capital lease obligations are guaranteed by the Province. The Ministry of Finance and Corporate Relations of the Province acts as fiscal agent and the Superannuation Commission of the Province administers the company pension plan. Fees are charged for both of these services.

The company is subject to all taxes levied by the Province except most property taxes. All other transactions between the company and the Province are at terms no more nor less favourable than those with unrelated parties.

BC Rail Ltd.
Management Discussion & Analysis

BC Rail Ltd. is the railway operating subsidiary of the British Columbia Railway group. The following information is provided to investors in BC Rail Ltd. to assist in their understanding of the company's financial results in accordance with the guidelines established by the Ontario Securities Commission and the Commission des Valeurs Mobilières du Québec.

General

Railway operating income increased 39% from 1990 to 1991. BC Rail Ltd.'s operating ratio, the ratio of operating expenses including depreciation to revenue improved in 1991 to .76 (restated 1990 - .81), largely as a result of an 8% increase in revenue. Improvements in operating efficiency and various cost reduction programs held operating expenses to an increase of only 1%. But for a number of non-recurring expenses amounting to $8 million, operating expenses would have been below the 1990 level.

During 1991 BC Rail Ltd. was free from labour disputes and major line closures which contributed to the increase in operating revenues. Additional freight revenues earned in 1991 were in spite of the slow economic recovery in both Canada and the United States.

In 1991, coal revenue provided 23% of total operating revenue (1990 - 24%). In 1990, arbitration proceedings were finalized between the largest northeast coal shipper and Japanese buyers awarding the buyers a retroactive reduction in the export price of coal under their contract. As a result of this award, the on-going viability of the shipper was dependent upon negotiating concessions from suppliers including a reduction in the rail freight charges. In early 1992 the railway reached agreement with the shipper which allowed the operator to continue operations. The agreement provides for the railway to reduce freight rates after November 1, 1991 and provides for the railway to share in any future performance benefits of the shipper above a threshold level.

Liquidity

Working capital was increased by $31 million from 1990 to 1991. All current obligations on long-term debt were funded from operations. Reductions in capital spending and the increase in revenue during 1991 were the major contributors to the improvement of the company's cash position. The 1991 year end cash balance will be used to fund capital asset acquisitions including the $13 million purchase of bulkhead flat cars to be received in the first half of 1992.

Capital Resources

The 1992 capital expenditures are estimated to total $95 million. At December 31, 1991 BC Rail Ltd. had commitments in place for approximately $18 million of the 1992 capital expenditures.

Funds generated from 1992 operations, together with funds provided by its parent, are anticipated to be sufficient to cover capital, operating, and financing costs of the company; however, if short-term borrowings are required, sufficient lines of credit are maintained.

In the event that revenues are less than projected, the company will revise the planned capital expenditures and discretionary maintenance programs such that additional financing is minimized.

Results of Operations

The company's financial performance is strong relative to other companies in British Columbia's resource-based economy and to other transportation providers. The absence of labour disputes and abnormal operating conditions during 1991 as compared with 1990, and increased marketing efforts resulted in an 8% increase in revenue.

Improvements in revenue from the shipment of logs, pulp, intermodal and sulphur were partially offset by the slow economic recovery which saw a general decline in overall freight traffic. This general decline in freight traffic also had a negative impact on revenue generated from the rental of railway equipment and switching charges.

Operating expenses increased by 1% in 1991. Included in the 1991 operating expenses were non-recurring costs relating to the Squamish subdivision floods in August, inventory writedowns, severance costs, and costs incurred when the Cale Creek bridge was destroyed by fire. Recent capital expenditures for road property and equipment have resulted in a reduction in maintenance expense in these areas for 1991.

Additional Information

For additional information concerning the company's operation, this analysis should be read in conjunction with the information contained elsewhere in this Annual Report.